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C O N F I D E N T I A L SECTION 01 OF 02 RIYADH 001572

SIPDIS

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TAGS: [EFIN](#) [ECON](#) [EINV](#) [EPET](#) [SA](#)
SUBJECT: SAG UPBEAT ON ECONOMY, BUT SIGNS OF SLOWDOWN
INCREASE

REF: A. RIYADH 1353
[1](#)B. RIYADH 1507

Classified By: Deputy Chief of Mission David Rundell for reasons 1.4 (b)
) and (d)

[1](#)1. (C) Summary: While still generally upbeat when discussing their economic prospects, Saudi businesses and government agencies have begun to temper their statements with an element of caution. Many embassy contacts have told us they expect a slight economic downturn, but that its effects will be minimal. The Saudi government (SAG) has already taken steps to protect their financial sector and is fiscally well-positioned should they need to do more. End summary.

Saudis Generally Still Upbeat on Economy

[1](#)2. (SBU) Saudi businessmen and government officials continue to voice optimistic assessments of the Kingdom's ability to weather current global economic turmoil. Press headlines from the past week include "Kingdom Seen on Top of Crisis; Inflation to Ease," "Global Financial Crunch Will Pass Saudi Arabia," "Financial Crisis Won't Affect Jobs," and "World-wide Market Crisis Will Not Affect Development Projects." An October 16 statement by the Supreme Economic Council (SEC) stated that the local effect of the global crisis will be "limited" and emphasized the "safety" of local banks' financial position.

But Some Signs of Possible Downturn

[1](#)3. (C) Nevertheless, both Embassy contacts and government press releases have shown an increasing tendency to caveat remarks regarding the economy with cautionary statements. Jerry McCabe of Saudi Investment Bank told Econoff the Kingdom's economic situation was getting worse, but that effects of the global situation would be mild relative to elsewhere. He also said the SAG had more than enough cash on hand to address any problems in its financial sector and that the most likely consequence of the crisis would be a delay in the completion of some of the large infrastructure projects currently underway. Such delays were also deemed likely by the attendees of a recent dinner hosted by the DCM, including former Ministry of Commerce official Fawaz al-Alamy and Exxon Mobil Saudi Arabia CEO Desmond Carr.

[1](#)4. (SBU) The most concrete private sector manifestation of these concerns has been the postponement of numerous (some sources have cited numbers as high as 80) initial public offerings on the Saudi stock exchange. While this is directly attributable to recent volatility and sharp declines on the exchange, it also indicates a larger concern about the availability of capital.

SAG Acting Quickly to Address Concerns

15. (C) In response to mounting signs of an economic slowdown, the SAG has taken steps to shift its economic policy away from fighting inflation and towards maintaining liquidity and stability in the financial sector. The Saudi Arabian Monetary Agency (SAMA) reduced its key lending rate by 50 basis points, cut its demand deposit reserve requirement from 13 percent to 10 percent, and, starting on October 20, began directly injecting both U.S. dollars and Saudi riyals into local banks through deposits. So far SAMA has injected the equivalent of \$8 billion and, according to Dr. John Sfakianakis, chief economist for Saudi Arabia British Bank, is likely to continue daily deposits of \$4 billion for the next two to three days. In addition, the SEC explicitly guaranteed bank deposits, the first time they have taken such a step, and adopted additional measures to reinforce confidence in the overall soundness of the economy. With a budget surplus in the neighborhood of \$133 billion for 2008, the SAG will have little difficulty meeting these obligations.

16. (C) Comment: Although recent volatility on the Saudi stock market (see ref B) and a global decline in oil prices have adversely affected local confidence in the economy, a significant economic downturn is unlikely. Oil prices have already begun to stabilize in anticipation of an OPEC production cut in the next week, and the SAG has enough cash on hand to smooth over any short-term economic shocks for some time to come. Furthermore, the current international

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price of oil has yet to approach the level which the SAG uses when making its conservative budget estimates. A lack of internationally available credit combined with a already-tight local credit market (see ref A) will probably slow completion of several large infrastructure projects, but not by more than a year or two. End comment.
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